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C O N F I D E N T I A L SECTION 01 OF 03 ISLAMABAD 001330

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SUBJECT: THE DEPUTY SECRETARY'S MEETING WITH ASIF ZARDARI

Classified By: Charge d'Affaires Peter Bodde, for reasons 1.4 (b)(d)

¶1. (C) Summary. In a wide-ranging discussion March 25, Pakistan People's Party (PPP) leader Asif Zardari told the Deputy Secretary that the National Assembly would give newly elected Prime Minister Gillani a vote of confidence on March 29. This would give the new government six months to begin to implement its "First 100 Days" program. Shah Mehmood Qureshi would be named Foreign Minister on March 29 when the cabinet was announced. The Deputy Secretary welcomed Zardari's intent to work closely with the U.S., especially in combating terrorism. Zardari welcomed introduction of Reconstruction Opportunity Zone legislation in the Senate but said he wanted to do even more to expand trade with both the U.S. and India. On restoring the judges, Zardari confirmed he would find a way to restore 99% of the judges, but not the former Chief Justice. Zardari indicated that he and the new parliament would be seeking ways to restore the powers of the Prime Minister over those of the President. End Summary.

¶2. (C) Deputy Secretary Negroponte, accompanied by SCA A/S Boucher, Charge, and Polcouns, met March 25 with Pakistan People's Party (PPP) Co-Chairman Asif Zardari. Also attending the meeting were Bilawal Zardari Bhutto, PPP Punjab President Shah Mehmood Qureshi and Zardari advisor Husein Haqqani.

¶3. (C) The Deputy Secretary conveyed his condolences over Benazir Bhutto's death to Zardari and Bilawal. He offered his congratulations on the PPP victory and noted that it was a sheer coincidence he had arrived on the day the new Prime Minister was taking his oath of office. The press no doubt would see a conspiracy in all this; Zardari laughed and said he was not denying it. The Deputy Secretary said the USG goal was to keep our good relations with Pakistan on an even keel, and we looked forward to working with the PPP. Zardari said he was happy to have U.S. support -- "what would we do without you?" -- because the new government had an opportunity and a challenge to tackle some very difficult issues, especially terrorism.

¶4. (C) The Deputy Secretary agreed we had a mutuality of interests. In the past year, he had noted a growing awareness in Washington of developments in Pakistan, and there was interest in extending our help. Zardari said the election had not been perfect but acknowledged USG assistance in making the election fairer. He now wanted to create a face of Islam in Pakistan that would be easier for the American people to understand. Boucher noted that the election of a new government would assist that effort.

Government Formation

¶5. (C) Turning to government formation, Zardari said he had put his foot down in negotiations with Pakistan Muslim League-N (PML-N) leader Nawaz Sharif and insisted that the PPP name the new Speaker as a symbol of a new beginning. Negotiations over apportioning ministers were ongoing, but Zardari said that he would insist on keeping Foreign Affairs and Interior and probably would have to give up Finance to the PML-N. Shah Mehmood Qureshi would be the Foreign Minister. The cabinet would be announced after a vote of confidence in Prime Minister Gillani, which would occur on March 29. Once the new government had a vote of confidence, there could not be another challenge for six months. Gillani would also announce the coalition's "First 100 Days" program after the vote of confidence.

¶6. (C) Zardari indicated he had made some deliberate trades on provincial power. He allowed the Awami National Party (ANP) to form the government in the Northwest Frontier Province because they could be more effective in working with the tribes in the fight against militants. The PPP would form a government in Balochistan but would be sensitive to the needs of Balochis because "we don't need another front" over which to battle.

¶7. (C) Zardari noted that he looked forward to receiving a briefing from Chief of Army Staff General Kayani on the security situation. The Deputy Secretary said he had just met Kayani, who was looking forward to briefing the new government. On security, the U.S. had three major concerns:

ISLAMABAD 00001330 002 OF 003

the once confined insurgency in Pakistan was spreading, there was a need to focus on the Pak-Afghan border region, and we needed to prevent any future 9/11 type attack that might be launched from Pakistan. Zardari agreed that "we can't afford that." The Deputy Secretary said there were never 100% guarantees, but we must increase our efforts to prevent any such attack.

Economic Issues/India

¶8. (C) The news that Pakistan had a \$90 (external) billion debt, said Zardari, limits what the new government can do. Pakistan needs better interaction with the American market to increase industrial output and employment. There was a nexus between jobs and terrorism; "whoever employs, succeeds." Zardari said he had spent three years in New York getting treatment for his heart so he understood America, and he believed it would be important to "increase the U.S. appetite" to help Pakistan. The Deputy Secretary noted that Reconstruction Opportunity Zone legislation had just been introduced in the Senate; Zardari said that was good but he wanted to do more to expand trade.

¶9. (C) Noting he had been criticized for suggesting that he could put the Kashmir issue aside and concentrate on increasing trade with India, Zardari said Pakistan could not ignore India's huge market, Pakistan's possible role as an energy corridor, and India's potential as an investor. Boucher noted that he had been in India when Zardari made his remarks on Kashmir; the reaction was positive and there may be fertile ground to move forward.

Relations with Musharraf

¶10. (C) Zardari said that he wanted to shift the government from a military focus to one based on aid and trade. But the Presidency "does not yet understand" the importance of this. Zardari questioned whether Musharraf was ready to change. On releasing the judges, Zardari said "we

couldn't have kept the old man (former Chief Justice Iftikhar Chaudhry) under house arrest" but confirmed he had an agreement with Nawaz to find a solution to restore 99% of the judges, minus Chaudhry. "Nawaz left this on my plate" to find a solution that will save face for the PML-N. "We will handle the situation" asserted Zardari, although some will try and exploit the issue for political purposes.

¶11. (C) The Deputy Secretary said he had been encouraged by his meeting with Musharraf. The President had taken off the uniform, held a fair election and had talked positively of new Prime Minister Gillani and the prospect of working with the PPP. Musharraf had felt that "only 2-3 judges were still a problem" so seemed resigned to having the others reinstated. Zardari responded that this issue needed to be solved because it would divert the new government from combating extremism.

¶12. (C) Zardari said he lost power by deliberately "being soft" on Musharraf during the campaign. In contrast, Nawaz had been harsh and won additional seats because of it. But Musharraf has not reciprocated, said Zardari, in responding to his request to oust the Chaudhrys from the Pakistan Muslim League (PML) party. If Chaudhry Shujaat Hussain is gone, claimed Zardari, "I can then work with the PML."

¶13. (C) The Deputy Secretary said Musharraf anticipated this issue would arise and asked that he pass on a message to Zardari. Musharraf said that if he dumps the Chaudhrys they will join Nawaz, and this will make life even more complicated for the PPP. Musharraf suggested they "let the dust settle" and issues would work out. Qureshi questioned this, saying that PML members were already forming a forward block, and the party had little future. Referring to discussions with Musharraf intermediaries, Zardari said Tariq Aziz had been on board with ousting the Chaudhrys but ISI Chief Taj had not. Boucher suggested that the PML still had a future.

¶14. (C) Zardari commented that Musharraf had changed Pakistan's government from one dominated by the Prime Minister to one run by the President -- the new parliament

ISLAMABAD 00001330 003 OF 003

will want to reverse this. So far, Zardari felt he should give Musharraf time to adjust to coming changes. The Deputy Secretary asked if Zardari had a personal relationship with

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Musharraf, and Zardari said not really. He could not afford to be seen supporting Musharraf right now, as Pakistani politicians are not that generous about accepting deals with rivals.

¶15. (C) Saying he had discussed the PM/Presidency power relationship with Musharraf's aides, Zardari described an idea of Benazir's that he was pursuing. He had discussed with Pakistan Ambassador to the U.S. Durrani the possibility of becoming the Prime Minister's advisor to the NSC. This would not entail eliminating the NSC just yet, but it would allow Durrani, who has credibility with the Army, Musharraf and political leaders, to serve as a bridge between the PPP and Musharraf. Boucher noted that the division of powers had been a topic of negotiation between Benazir and Musharraf; Musharraf had indicated that he was prepared to accept a Prime Minister as chief executive.

Energy Woes

¶16. (C) The Deputy Secretary noted that in the last eight years, despite economic growth, Pakistan had not added a single megawatt of power to its energy grid. Zardari agreed this was astonishing, noting that before Benazir left office, there were contracts (many with U.S. firms) signed to add 27,000 megawatts of power. These contracts had been scrapped

over concerns over kickbacks. But Zardari questioned how Musharraf could not have been aware of this problem. He said that he was amazed that Musharraf believes the economy is still in good shape. On power, however, there would be at least a three year lag before any solution could be delivered, said Zardari. Even if Pakistan ordered new power plants now, there was a waiting list. The fastest solution was through the pipeline with Iran, but this was "politically incorrect," acknowledged Zardari. The Deputy Secretary agreed that the U.S. would be dismayed to see Pakistan go forward with the Iran pipeline deal and asked about the Turkmenistan pipeline. Haqqani asked who would fund it; Boucher noted that it would be difficult to get financing because there had been no audit of the Turkmenistan reserves.

117. (U) The Deputy Secretary has cleared this message.

BODDE